

PLEASANT GROVE CITY CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2005

PLEASANT GROVE CITY CORPORATION
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
Pleasant Grove City Corporation
Pleasant Grove, UT

December 5, 2005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Grove City Corporation (City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

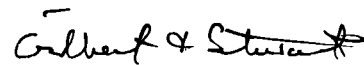
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pleasant Grove City Corporation as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated December 5, 2005 on our consideration of Pleasant Grove City Corporation's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the Table of Contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pleasant Grove City Corporation's basic financial statements. The schedules listed in the supplemental section of the Table of Contents, the Schedule of Expenditures of Federal Awards listed in the single audit section of the Table of Contents, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for the purposes of additional analysis and are not a required part of the financial statements of Pleasant Grove City. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Pleasant Grove City, we offer readers of Pleasant Grove City's financial statements this narrative overview and analysis of the financial activities of Pleasant Grove City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The total net assets of the Pleasant Grove City increased 11.13% to \$80,645,078.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,584,704. Of this amount \$4,639,607 (70.46%) is available for spending at the government's discretion (unreserved fund balance).
- The total net assets of \$80,645,078 is made up of \$68,399,279 in capital assets net of related debt and \$12,245,799 in other net assets.
- The City's total long-term liabilities decreased by \$1,250,555 during the current fiscal year.

Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to Pleasant Grove City's basic financial statements. Pleasant Grove City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Pleasant Grove City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Pleasant Grove City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pleasant Grove City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.

Proprietary funds –Pleasant Grove City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Pleasant Grove City uses enterprise funds to account for its Storm Drain Utility, Water Utility, and Sewer Utility.

The basic proprietary fund financial statements can be found on pages 18-21 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Pleasant Grove, assets exceed liabilities by \$80,645,078.

By far the largest portion of the City of Pleasant Grove's net assets (84.82%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets.

Pleasant Grove City's Net Assets

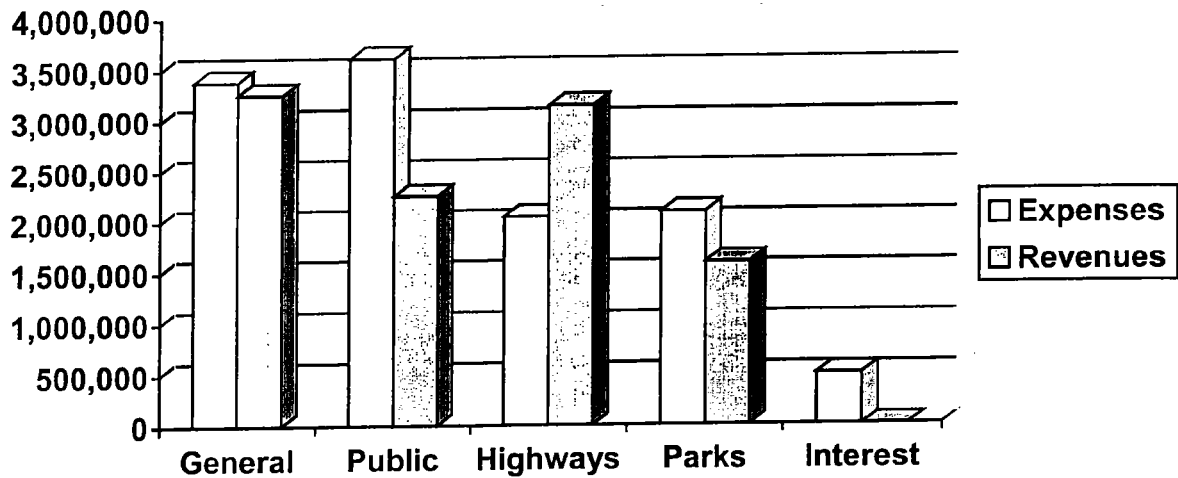
	Governmental Activities		Business-type Activities	
	2004	2005	2004	2005
Current and other assets	\$8,686,086	\$11,557,911	\$6,060,779	\$5,843,978
Capital assets	51,119,166	53,022,082	26,424,576	29,768,754
Total assets	59,805,252	64,579,993	32,485,355	35,612,732
Long-term debt outstanding	9,335,558	8,105,503	4,762,000	4,741,500
Other liabilities	5,169,798	6,191,261	457,894	509,383
Total liabilities	14,505,356	14,296,764	5,219,894	5,250,883
Net assets:				
Invested in capital assets,				
Net of related debt	40,560,127	43,698,525	21,346,577	24,700,754
Restricted	1,700,301	1,945,097		
Unrestricted	3,039,468	4,639,607	5,918,884	5,661,095
Total net assets	\$45,299,896	\$50,283,229	\$27,265,461	\$30,361,849

Pleasant Grove City's Changes in Net Assets

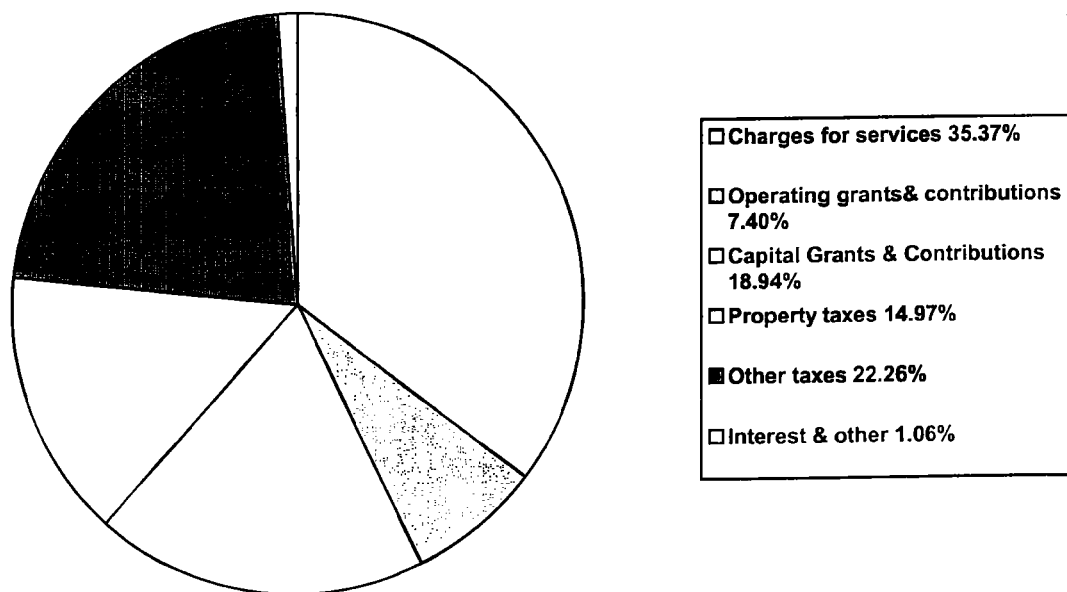
	Governmental Activities		Business-type Activities	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenues:				
Program revenues:				
Charges for services	\$6,443,672	\$5,879,743	\$5,020,485	\$4,135,605
Operating grants & contribs	1,210,035	1,230,240		
Capital grants & contribs	1,815,667	3,148,533	3,395,585	3,509,394
General revenues:				
Property taxes	2,563,354	2,488,152		
General sales & use tax	2,240,531	2,539,580		
Franchise tax	895,059	1,160,711		
Highway tax	0	0		
Unrestricted investment earnings	105,555	155,945	61,698	130,645
Other	0	19,926		22,783
Total revenues	<u>15,273,873</u>	<u>16,622,830</u>	<u>8,477,768</u>	<u>7,798,427</u>
Expenses:				
General government	2,686,906	3,385,875		
Public safety	3,486,992	3,611,197		
Highway & public works	2,158,868	2,047,972		
Parks & recreation	2,041,251	2,092,926		
Interest on long-term debt	643,830	501,527		
Water Utility			2,194,035	2,297,219
Sewer Utility			1,932,463	2,086,824
Storm Drain Utility			257,526	317,997
Total expenses	<u>11,017,847</u>	<u>11,639,497</u>	<u>4,384,024</u>	<u>4,702,040</u>
Increase in net assets	4,256,026	4,983,333	4,093,744	3,096,387
Net assets - beginning	<u>41,043,870</u>	<u>45,299,896</u>	<u>23,171,719</u>	<u>27,265,462</u>
Net assets - ending	<u><u>\$45,299,896</u></u>	<u><u>\$50,283,229</u></u>	<u><u>\$27,265,463</u></u>	<u><u>\$30,361,849</u></u>

The following graphs display the government-wide activities for governmental activities reflected in the above tables:

Expenses and Program Revenues - Governmental Activities

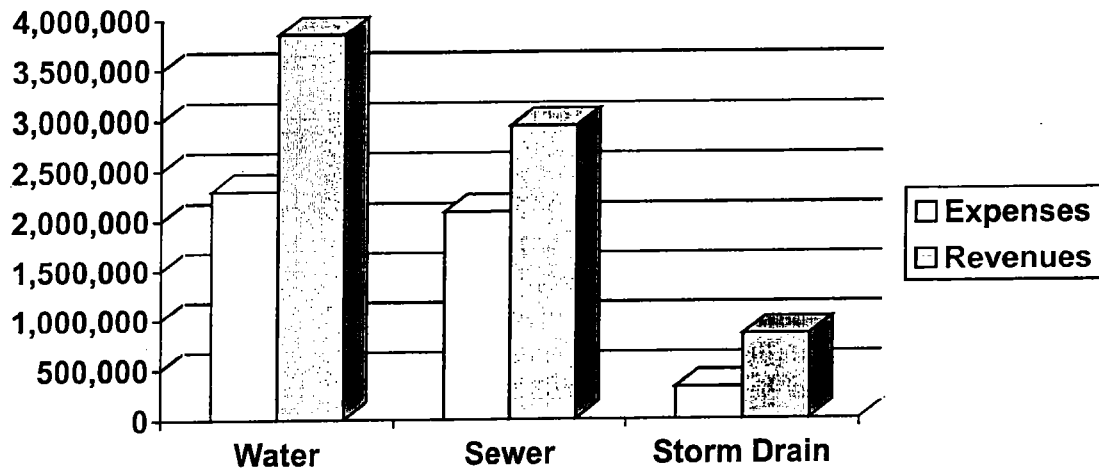


Revenues by Source - Governmental Activities

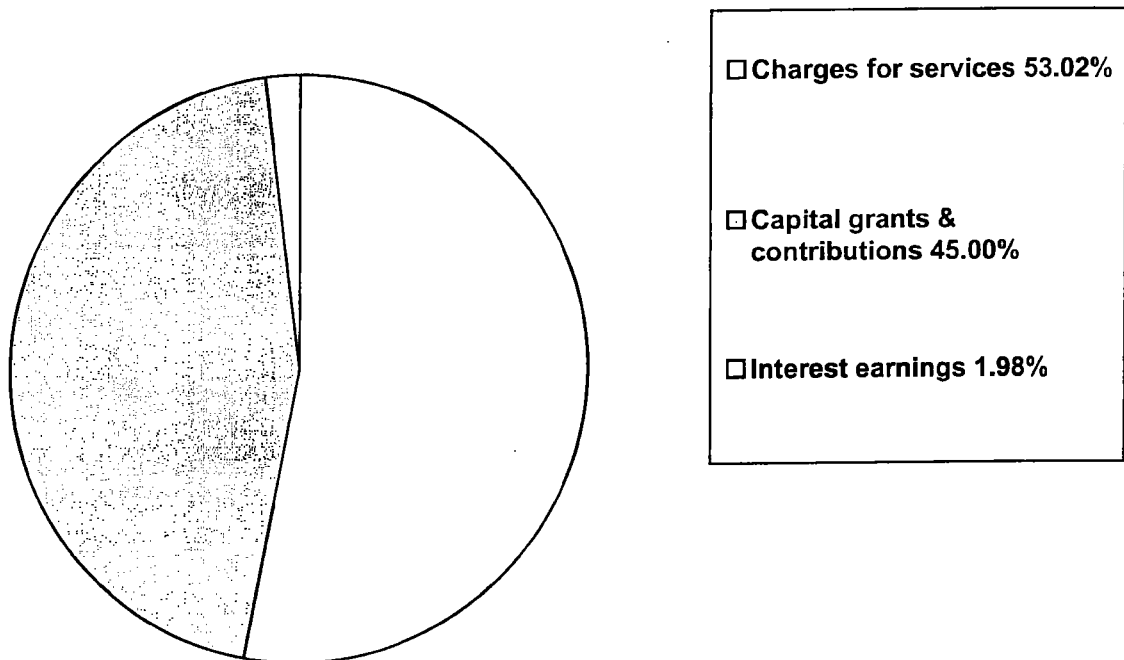


Business-type activities. Business-type activities increased the City's net assets by \$3,096,387. As of the end of the current fiscal year, all of the City's business-type funds reported positive net assets.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

Capital Assets and Debt Administration

Capital Assets. The City of Pleasant Grove's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$82,790,836 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, construction in progress, and water rights. The total increase in the City's investment in fixed assets for the current year was 6.77% (3.72% increase in governmental activities and a 12.66% for business-type activities).

Major capital asset events during the current fiscal year include the following:

- The new well - \$1,175,215.
- New roads, curb, gutter and sidewalk - \$1,673,355.
- Storm Drain additions - \$512,240.
- Water line extensions and other improvements - \$974,253.
- Additional water rights - \$345,914.
- Park development - \$223,787.
- Sewer collection extensions - \$523,643

City of Pleasant Grove's Capital Assets

	Governmental Activities		Business-type Activities	
	2004	2005	2004	2005
Land	\$38,879,950	\$38,990,135	\$543,532	\$543,532
Buildings	2,746,411	2,692,398		
Improvements & Infrastructure	8,305,144	10,076,944	23,401,909	24,906,396
Equipment	1,187,661	1,262,605	191,382	336,208
Infrastructure				
Construction in Progress			34,051	1,383,002
Water Rights & Stock			2,253,702	2,599,616
Total net assets	<u>\$51,119,166</u>	<u>\$53,022,082</u>	<u>\$26,424,576</u>	<u>\$29,768,754</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total bonded debt outstanding of \$15,637,039. Of this amount \$908,000 comprises debt backed by the full faith and credit of the government and \$14,729,039 is debt that is secured solely by specific revenue sources (i.e., revenue bonds).

**City of Pleasant Grove's Outstanding Debt
General Obligation and Revenue Bonds**

	Governmental Activities		Business-type Activities	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
General Obligation Bonds	\$908,000	\$614,000	\$0	\$0
Capital Lease	174,039	56,765	0	0
Revenue Bonds	9,477,000	8,633,000	5,078,000	6,165,000
Total Bonds	<u>\$10,559,039</u>	<u>\$9,303,765</u>	<u>\$5,078,000</u>	<u>\$6,165,000</u>

- The City's total outstanding debt decreased by \$168,274 during the current fiscal year.

The City of Pleasant Grove most recent bond issue had ratings of "AA" from Standard & Poor's and "AA-" from Fitch.

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value. The current limitations for the City are \$34,178,506, which is significantly in excess of the City's outstanding general obligation debt. In addition, state statutes allows for an additional 4% to be used for water, sewer, or other revenue bond projects thus resulting in a debt limit of 8% of total taxable value. Total limitation is \$68,357,012, which again significantly exceeds the outstanding debt.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Utah County (of which Pleasant Grove is the fourth largest city) was 3.9%. This compares with a state unemployment rate of 4.7% and a national rate of 5.0%. This compares with previous year's rates of 3.9%, 4.8%, and 5.4% respectively.
- The General Fund budget for the fiscal year-ending June 30, 2006 reflects an increase of 5.65% over the fiscal year ending, June 30, 2005.
- Economic trends in the region compare favorably to national indices.

Request For Information

This financial report is designed to provide a general overview of the City of Pleasant Grove's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Pleasant Grove City, Finance Director, 70 South 100 East, Pleasant Grove, UT 84062.

BASIC FINANCIAL STATEMENTS

PLEASANT GROVE CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,094,133	\$ 4,573,930	\$ 10,668,063
Cash - Restricted	2,181,146	623,299	2,804,445
Receivables - net	3,040,248	473,086	3,513,334
Inventories		21,268	21,268
Prepaid expenses	10,435		10,435
Deferred bond financing cost - net	231,949	152,395	384,344
Capital assets (net of accumulated depreciation):			
Land	38,990,135	543,532	39,533,667
Buildings	2,692,398		2,692,398
Improvements and Infrastructure	10,076,944	24,906,396	34,983,340
Equipment	1,262,605	336,208	1,598,813
Infrastructure			0
Construction in Progress		1,383,002	1,383,002
Water Rights and Stock		2,599,616	2,599,616
Total assets	<u>64,579,993</u>	<u>35,612,732</u>	<u>100,192,725</u>
LIABILITIES			
Accounts payable and accrued liabilities	3,107,431	182,883	3,290,314
Bond interest payable	97,921		97,921
Deferred revenue	1,767,855		1,767,855
Noncurrent liabilities:			
Due within one year	1,218,054	326,500	1,544,554
Due in more than one year	8,105,503	4,741,500	12,847,003
Total liabilities	<u>14,296,764</u>	<u>5,250,883</u>	<u>19,547,647</u>
NET ASSETS			
Invested in capital assets, net of related debt	43,698,525	24,700,754	68,399,279
Restricted for Roads and Impact Fees	1,606,286		1,606,286
Unrestricted	4,978,418	5,661,095	10,639,513
Total net assets	<u>\$ 50,283,229</u>	<u>\$ 30,361,849</u>	<u>\$ 80,645,078</u>

See accompanying notes.

PLEASANT GROVE CITY

Statement of Activities

For the Year Ended June 30, 2005

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating		Governmental Activities	Primary Government	
		Charges for Services	Grants and Contributions		Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 3,385,875	\$ 3,098,972	\$ 108,520	\$ 51,000	\$ (127,383)	\$ (127,383)
Public safety	3,611,197	1,890,268	227,332	138,582	(1,355,015)	(1,355,015)
Highways and public works	2,047,972	45,048	709,215	2,393,967	1,100,258	1,100,258
Parks and recreation	2,092,926	845,455	185,173	564,984	(497,314)	(497,314)
Interest on long-term debt	501,527				(501,527)	(501,527)
Total governmental activities	11,639,497	5,879,743	1,230,240	3,148,533	(1,380,981)	(1,380,981)
Business-type activities:						
Water Utility	2,297,219	1,920,102		1,933,460	1,556,343	1,556,343
Sewer Utility	2,086,824	1,930,874		1,011,898	855,948	855,948
Storm Drain Utility	317,997	284,629		564,036	530,668	530,668
Total business-type activities	4,702,040	4,135,605	0	3,509,394	2,942,959	2,942,959
Total primary government	\$16,341,537	\$10,015,348	\$ 1,230,240	\$ 6,657,927	\$ (1,380,981)	\$ 1,561,978
General revenues:						
Property taxes					2,488,152	2,488,152
General sales and use tax					2,539,580	2,539,580
Franchise tax					1,160,711	1,160,711
Unrestricted investment earnings					130,645	286,590
Other Revenues					19,926	19,926
Sale of assets					22,783	22,783
Total general revenues					6,364,314	6,517,742
Change in net assets					4,983,333	8,079,720
Net assets - beginning					45,299,896	72,565,358
Net assets - ending					\$50,283,229	\$80,645,078

See accompanying notes.

PLEASANT GROVE CITY

Balance Sheet Governmental Funds June 30, 2005

	General Fund	Special Revenue Fund Redevelopment Agency	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,190,349	\$ 105,033	\$ 3,159,998	\$ 638,753	\$ 6,094,133
Cash - Restricted	2,181,146				2,181,146
Receivables (net):					
Property tax	1,800,367			123,177	1,923,544
Sales tax	458,506				458,506
Other	381,333				381,333
Intergovernmental	276,865				276,865
Prepaid expense	10,435				10,435
Notes receivable - interfund	1,329,823			346,652	1,676,475
Total assets	<u>\$ 8,628,824</u>	<u>\$ 105,033</u>	<u>\$ 3,159,998</u>	<u>\$ 1,108,582</u>	<u>\$ 13,002,437</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable & accrued liabilities	\$ 3,107,431	\$ -		\$ -	\$ 3,107,431
Notes payable - interfund		1,676,475			1,676,475
Deferred revenue	1,698,548			123,177	1,821,725
Total liabilities	<u>4,805,979</u>	<u>1,676,475</u>	<u>0</u>	<u>123,177</u>	<u>6,605,631</u>
Fund Balances:					
Restricted for Roads and Impact Fees	63,342		1,542,944		1,606,286
Reserved for Other Activities	338,811				338,811
Unreserved, reported in:					
General Fund	3,420,692				3,420,692
Special Revenue Funds		(1,571,442)		618,726	(952,716)
Capital Project Fund			1,617,054		1,617,054
Debt Service Fund				366,679	366,679
Total fund balances	<u>3,822,845</u>	<u>(1,571,442)</u>	<u>3,159,998</u>	<u>985,405</u>	<u>6,396,806</u>
Total liabilities and fund balances	<u>\$ 8,628,824</u>	<u>\$ 105,033</u>	<u>\$ 3,159,998</u>	<u>\$ 1,108,582</u>	<u>\$ 13,002,437</u>

See accompanying notes.

PLEASANT GROVE CITY

Balance Sheet Reconciliation to

Statement of Net Assets

June 30, 2005

Total fund balances - governmental fund types:

\$ 6,396,806

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

53,022,082

Property taxes levied in prior years but not yet received are reported as deferred revenue in the governmental funds, but are recorded as revenues in the prior year net assets in the statement of activities.

53,870

Governmental funds report the effects of bond issuance costs, whereas these amounts are deferred and shown as net amortization in the statement of net assets.

231,949

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(9,421,478)

Net assets of government activities

\$ 50,283,229

See accompanying notes.

PLEASANT GROVE CITY

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2005

	General Fund	Special Revenue Redevelopment Agency	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 5,758,567	\$ 178,417	\$ -	\$ -	\$ 5,936,984
Licenses and permits	683,425			261,980	945,405
Intergovernmental	1,037,507		51,000		1,088,507
Charges for services	4,301,809				4,301,809
Impact fees			1,172,445		1,172,445
Fines and forfeitures	545,470				545,470
Miscellaneous revenue	562,331		68,349	113,232	743,912
Total revenues	<u>12,889,109</u>	<u>178,417</u>	<u>1,291,794</u>	<u>375,212</u>	<u>14,734,532</u>
EXPENDITURES					
Current:					
General government	2,928,839		304,189		3,233,028
Public safety	3,843,065				3,843,065
Highways and public works	1,633,516				1,633,516
Parks and recreation	2,208,672		223,787		2,432,459
Debt service:					
Principal retirement	486,631		205,851	543,000	1,235,482
Interest and fiscal charges	141,605	44,710	201,825	95,852	483,992
Total expenditures	<u>11,242,328</u>	<u>44,710</u>	<u>935,652</u>	<u>638,852</u>	<u>12,861,542</u>
Excess revenues over (under) expenditures	<u>1,646,781</u>	<u>133,707</u>	<u>356,142</u>	<u>(263,640)</u>	<u>1,872,990</u>
Other financing sources (uses)					
Transfers in	100,000		1,300,000	9,296	1,409,296
Transfers out	(1,400,000)	(9,296)			(1,409,296)
Total other financing sources and uses	<u>(1,300,000)</u>	<u>(9,296)</u>	<u>1,300,000</u>	<u>9,296</u>	<u>0</u>
Net change in fund balance	346,781	124,411	1,656,142	(254,344)	1,872,990
Fund balances - beginning of year	3,476,064	(1,695,853)	1,503,856	1,239,749	4,523,816
Fund balances - end of year	<u>\$ 3,822,845</u>	<u>\$ (1,571,442)</u>	<u>\$ 3,159,998</u>	<u>\$ 985,405</u>	<u>\$ 6,396,806</u>

See accompanying notes.

PLEASANT GROVE CITY
Statement of Changes
Reconciliation to
Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 1,872,990
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,098
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Contributions of capital assets not reported in the funds.	1,898,819
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The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,200,078
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>7,348</u>
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Change in net assets of governmental activities	<u><u>\$ 4,983,333</u></u>
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See accompanying notes.

PLEASANT GROVE CITY

Statement of Net Assets

Proprietary Funds

June 30, 2005

	Business-Type Activities - Enterprise			
	Water Utility	Sewer Utility	Storm Drain Utility	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 4,377,835	\$ 196,095	\$ 4,573,930
Accounts receivable - net	251,483	191,329	30,274	473,086
Inventories	21,268			21,268
Due From Other Funds		318,840		318,840
Total current assets	272,751	4,888,004	226,369	5,387,124
Noncurrent assets:				
Restricted cash and cash equivalents	407,224	216,075		623,299
Land, equipment, buildings and improv.	19,698,987	10,106,997	3,773,302	33,579,286
Less: Accumulated depreciation	(5,471,408)	(2,115,189)	(206,553)	(7,793,150)
Construction in progress	1,383,002			1,383,002
Water Rights and Stock	2,599,616			2,599,616
Deferred bond financing costs - net	101,766	39,958	10,671	152,395
Total noncurrent assets	18,719,187	8,247,841	3,577,420	30,544,448
Total assets	\$ 18,991,938	\$ 13,135,845	\$ 3,803,789	\$ 35,931,572
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 160,542	\$ 15,778	\$ 6,563	\$ 182,883
Due to Other Funds	318,840			318,840
Bonds and capital leases	228,600	82,600	15,300	326,500
Total current liabilities	707,982	98,378	21,863	828,223
Noncurrent liabilities:				
Bonds and capital leases	3,247,800	1,114,800	378,900	4,741,500
Total noncurrent liabilities	3,247,800	1,114,800	378,900	4,741,500
Total liabilities	3,955,782	1,213,178	400,763	5,569,723
Net Assets:				
Invested in cap assets, net of related debt	14,733,797	6,794,408	3,172,549	24,700,754
Unrestricted	302,359	5,128,259	230,477	5,661,095
Total net assets	\$ 15,036,156	\$ 11,922,667	\$ 3,403,026	\$ 30,361,849

See accompanying notes.

PLEASANT GROVE CITY

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			
	Water Utility	Sewer Utility	Storm Drain Utility	Total
Operating revenues:				
Charges for Services	\$ -	\$ -	\$ 281,529	\$ 281,529
Charges pledged as security for revenue bonds	1,808,587	1,851,501		3,660,088
Fees and Miscellaneous	111,515	79,373	3,100	193,988
Total operating revenues	<u>1,920,102</u>	<u>1,930,874</u>	<u>284,629</u>	<u>4,135,605</u>
Operating expenses:				
Salaries and wages	311,495	28,495	56,887	396,877
Employee benefits	139,462	8,450	23,679	171,591
Seminar and conventions	6,474	2,248	417	9,139
Office supplies	35,518			35,518
Administrative Services	318,780	444,915	47,860	811,555
Maintenance and repairs	56,862	3,059		59,921
Lease and Rents	9,721	23,160	4,800	37,681
Utilities	222,648			222,648
Telephone	9,656	797		10,453
Professional services	90,118	49,913	49,289	189,320
Insurance	29,361	29,116		58,477
Depreciation	444,908	159,805	83,857	688,570
Miscellaneous	45,107	18,140	29,981	93,228
Water Lease	348,821			348,821
Supplies	115,128	38,011	3,355	156,494
Charges for Treatment		1,224,908		1,224,908
Amortization of bond financing costs	5,674	4,012	610	10,296
Total operating expenses	<u>2,189,733</u>	<u>2,035,029</u>	<u>300,735</u>	<u>4,525,497</u>
Operating income	<u>(269,631)</u>	<u>(104,155)</u>	<u>(16,106)</u>	<u>(389,892)</u>
Nonoperating revenues (expenses):				
Interest revenue	10,389	113,188	7,068	130,645
Grant Revenue	132,890			132,890
Sale of Assets			22,783	22,783
Impact Fees	574,757	598,523	104,638	1,277,918
Interest expense and fiscal charges	(107,486)	(51,795)	(17,262)	(176,543)
Total nonoperating revenues (expenses)	<u>610,550</u>	<u>659,916</u>	<u>117,227</u>	<u>1,387,693</u>
Net income (Loss) before contributions	340,919	555,761	101,121	997,801
Developers Contributions	<u>1,225,813</u>	<u>413,375</u>	<u>459,398</u>	<u>2,098,586</u>
Change in net assets	1,566,732	969,136	560,519	3,096,387
Total net assets - beginning	<u>13,469,424</u>	<u>10,953,531</u>	<u>2,842,507</u>	<u>27,265,462</u>
Total net assets - ending	<u>\$ 15,036,156</u>	<u>\$ 11,922,667</u>	<u>\$ 3,403,026</u>	<u>\$ 30,361,849</u>

See accompanying notes.

PLEASANT GROVE CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			Total
	Water Utility	Sewer Utility	Storm Drain	
Cash Flows From Operating Activities				
Receipts from customers	\$ 1,903,380	\$ 2,014,027	\$ 282,886	\$ 4,200,293
Payments to suppliers	(941,545)	(1,384,401)	(84,291)	(2,410,237)
Payments to general fund for services	(318,780)	(444,915)	(47,860)	(811,555)
Payments to employees	(446,340)	(36,945)	(80,566)	(563,851)
Net cash provided (used) by operating activities	196,715	147,766	70,169	414,650
Cash Flows From Noncapital Financing Activities				
Due to (from) other funds	318,840	(318,840)		0
Cash Flows From Capital and Related Financing Activities				
Impact fees	574,757	598,523	104,638	1,277,918
Proceeds from sale of assets			65,000	65,000
Proceeds from note receivable	235,340			235,340
Grant revenue for capital activities	132,891			132,891
Purchases of capital assets	(1,587,828)	(110,267)	(278,283)	(1,976,378)
Proceeds from new debt	306,000			306,000
Bond financing costs	(42,698)			(42,698)
Principal paid on debt	(221,000)	(80,000)	(15,000)	(316,000)
Interest paid on capital debt	(107,486)	(51,795)	(17,262)	(176,543)
Net cash provided (used) by capital and related financing activities	(710,024)	356,461	(140,907)	(494,470)
Cash Flows From Investing Activities				
Interest and dividends received	10,389	113,188	7,068	130,645
Net cash provided (used) by investing activities	10,389	113,188	7,068	130,645
Net increase (decrease) in cash and cash equivalents	(184,080)	298,575	(63,670)	50,825
Cash and cash equivalents - beginning	591,304	4,295,335	259,765	5,146,404
Cash and cash equivalents - end	<u>\$ 407,224</u>	<u>\$ 4,593,910</u>	<u>\$ 196,095</u>	<u>\$ 5,197,229</u>

See accompanying notes.

PLEASANT GROVE CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			Total
	Water Utility	Sewer Utility	Storm Drain	
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ (269,631)	\$ (104,155)	\$ (16,106)	\$ (389,892)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	444,908	159,805	83,857	688,570
Amortization expense	5,674	4,012	610	10,296
(Increase) decrease in receivables	(16,722)	83,153	(1,743)	64,688
Increase (decrease) in accounts payable	32,486	4,951	3,551	40,988
Total adjustments	466,346	251,921	86,275	804,542
Net cash provided (used) by operating activities	\$ 196,715	\$ 147,766	\$ 70,169	\$ 414,650

Supplementary information:

Non-cash items from capital and related financing activities include contributions by subdividers to the water system of \$1,225,813, to the sewer system of \$413,375, and to the storm drain system of \$459,398

See accompanying notes.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pleasant Grove City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

Pleasant Grove City Corporation was incorporated under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. They are assisted by a Finance Director who is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, and accounts receivable.

The City provides the following services as mandated by law: Public Safety, Judicial Services, Highways and Streets, Sanitation, Parks, Cemetery, Water, Sewer, Storm Drain, Public Improvements, Planning and Zoning, and General Administrative Services

The City owns one-third of Tri-City Golf Course. The accounts of the golf course are excluded from the accompanying financial statements because the entity is autonomous and has a self-elected board of directors responsible for its operations and the hiring of its management personnel. The golf course was established in 1973 by American Fork City, Pleasant Grove City, and Lehi City.

Blended Component Units.

The Municipal Building Authority was created by the City during fiscal year 1995 and is governed by the City's Mayor and Council. The authority uses the proceeds of its tax-exempt bonds to finance the construction or acquisition of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a blended component unit.

The Redevelopment Agency is governed by a separate governing board, who are the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

The Municipal Building Authority and the Redevelopment Agency are considered blended component units since the governing board in each case is the same governing board of the City.

The Municipal Building Authority and the Redevelopment Agency are presented as special revenue funds in the financial statements

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Redevelopment Agency Special Revenue Fund* accounts for the activities of the agency, a blended component unit of the city. The agency is an entity established to further public purpose in the redevelopment of particular city areas.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary fund).

The government reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the City’s water operations.

The *Sewer Fund* accounts for the activities of the City’s sewer operations.

The *Storm Drain Fund* accounts for the activities of the City’s storm drain operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

Additionally, the government reports the following fund types:

The *Municipal Building Authority* special revenue fund accounts for the activities of the municipal building authority.

The *Debt Service Fund* accounts for accumulation of financial resources for the payment of principal and interest on the City's general obligation debt.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of amounts deposited with Utah Public Treasurers' Investment Fund, treasury bills of the U.S. Government, and money market funds. Investments are stated at fair value, which approximates cost.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to other funds" or "due from other funds."

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

4. Restricted Assets

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services.

Restricted resources rather than unrestricted resources are used first to fund related appropriations.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25-40
Improvements other than buildings	20-25
Infrastructure	20
Machinery and equipment	5-10

6. Compensated Absences

City employees accrue earned vacation throughout the year. Unpaid vacation expires at the end of the calendar year. All vacation pay is accrued when incurred. A liability for these amounts is reported in the financial statements.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

7. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

10. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$61,501,093
Accumulated depreciation	<u>(8,479,011)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>)	<u>\$53,022,082</u>

Long-term debt transactions:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – RECONCILIATION (CONTINUED)

Bonds and capital leases payable	(\$9,323,557)
Bond interest payable	(97,921)

Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	(\$9,421,478)
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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$1,034,662
Depreciation expense	(1,030,564)

Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 4,098
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Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Debt issued or retired:	
Principal paid on bonds and capital leases	\$1,235,482
Issuance cost amortization	(35,404)
Total debt incurred	\$1,200,078

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Deposits

Deposits – Custodial Credit Risk. Custodial risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the State Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2005</u>
Checking & Savings Accounts	Insured	\$ 100,000
Checking & Savings Accounts	Uninsured and Uncollateralized	2,427,561
		<u>\$2,527,561</u>

B. Investments

The City's investments are managed through participation in the State Public Treasurers' Investment Fund. The City also has funds in bond accounts at US Bank invested in money market mutual funds and at Wells Fargo invested in the Public Treasurer's Investment Fund. As of June 30, 2005 The City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	57 days average	\$ 8,596,662
First American Treasury Obligation Fund	35-40 days average	1,540,163
Utah Public Treasurer's Investment Fund – Wells Fargo	57 days average	728,389
		<u>\$ 10,865,214</u>

Investments–Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 - CASH (Continued)

Investments—Credit Risk. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers Investment Fund (PTIF), certificates of Deposits, U.S. Treasury obligations, U.S. agency issues, high-grade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices.

At June 30 2005, the City had the following quality ratings:

Investments	Fair Value	AAA	Quality Ratings		
			AA	A	Unrated
Utah Public Treasurer's Investment Fund	\$ 9,325,051	\$ -	\$ -	\$ -	\$ 9,325,051
First American Treasury Obligations Fund	1,540,163	1,540,163			
Total Investment	<u>\$ 10,865,214</u>	<u>\$ 1,540,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,325,051</u>

Investments—Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk.

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major fund and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

	General	Water	Sewer	Storm Drain	Nonmajor Governmental	Total
Receivables:						
Accounts	\$71,715	\$186,776	\$192,079	\$30,374	\$0	\$480,944
Property Tax	1,800,367				123,177	1,923,544
Sales Tax	458,506					458,506
Other	310,913					310,913
Intergovernmental	276,865	67,707				344,572
Less: Allowance for						
Uncollectible accounts	(1,295)	(3,000)	(750)	(100)		(5,145)
Total	<u>\$2,917,071</u>	<u>\$251,483</u>	<u>\$191,329</u>	<u>\$30,274</u>	<u>\$123,177</u>	<u>\$ 3,513,334</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	\$1,698,548	
Property taxes receivable (Debt Service Fund)	123,177	
Total deferred/unearned revenue for Governmental Funds	<u>\$1,821,725</u>	<u>\$ 0</u>

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of year end is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Redevelopment Agency	\$1,329,823
Municipal Building Authority	Redevelopment Agency	346,652
Total		<u>\$1,676,475</u>

The interfund balance between the MBA and RDA is not expected to be repaid within one year.

	<u>Transfer In</u>		
Transfer Out:	<u>MBA</u>	<u>General</u>	<u>Capital Projects</u>
General		\$100,000	\$1,300,000
Redevelopment Agency	\$9,296		
Total Transfer Out	<u>\$9,296</u>	<u>\$100,000</u>	<u>\$1,300,000</u>

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government	Beginning			Ending
Governmental activities:	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 38,990,135	\$ -	\$ -	\$ 38,990,135
Total capital assets not being depreciated	<u>38,990,135</u>	<u>-</u>	<u>-</u>	<u>38,990,135</u>
Capital assets being depreciated:				
Buildings	5,005,132	97,267	-	5,102,399
Improvements	-	-	-	-
Machinery and equipment	3,837,220	460,256	-	4,297,476
Infrastructure	10,735,125	2,375,958	-	13,111,083
Total capital assets being depreciated	<u>19,577,477</u>	<u>2,933,481</u>	<u>-</u>	<u>22,510,958</u>
Less accumulated depreciation for:				
Buildings	2,258,655	151,346	-	2,410,001
Improvements	-	-	-	-
Machinery and equipment	2,759,810	275,061	-	3,034,871
Infrastructure	2,429,982	604,157	-	3,034,139
Total accumulated depreciation	<u>7,448,447</u>	<u>1,030,564</u>	<u>-</u>	<u>8,479,011</u>
Total capital assets, being depreciated, net	<u>12,129,030</u>	<u>1,902,917</u>	<u>-</u>	<u>14,031,947</u>
Governmental activities capital assets, net	<u>\$ 51,119,165</u>	<u>\$ 1,902,917</u>	<u>\$ -</u>	<u>\$ 53,022,082</u>
Business-type activities:	Beginning	Increases	Decreases	Ending
	Balance			Balance
Capital assets not being depreciated:				
Construction in Progress	\$ 34,053	\$ 1,348,949	\$ -	\$ 1,383,002
Water Shares	2,253,702	345,914	-	2,599,616
Land	543,532	-	-	543,532
Total capital assets not being depreciated	<u>2,831,287</u>	<u>1,694,863</u>	<u>-</u>	<u>4,526,150</u>
Capital assets being depreciated:				
Buildings	65,497	-	-	65,497
Improvements	29,890,264	2,154,661	-	32,044,925
Machinery and equipment	872,893	225,439	173,000	925,332
Total capital assets being depreciated	<u>30,828,654</u>	<u>2,380,100</u>	<u>173,000</u>	<u>33,035,754</u>
Less accumulated depreciation for:				
Buildings	65,497	-	-	65,497
Improvements	6,488,356	650,173	-	7,138,529
Machinery and equipment	681,510	38,397	130,783	589,124
Total accumulated depreciation	<u>7,235,363</u>	<u>688,570</u>	<u>130,783</u>	<u>7,793,150</u>
Total capital assets, being depreciated, net	<u>23,593,291</u>	<u>1,691,530</u>	<u>42,217</u>	<u>25,242,604</u>
Business-type activities capital assets, net	<u>\$ 26,424,578</u>	<u>\$ 3,386,393</u>	<u>\$ 42,217</u>	<u>\$ 29,768,754</u>

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 152,847
Public safety	208,857
Highways and public improvements	637,222
Parks and recreation	31,638
Total depreciation expense - governmental activities	<u>\$ 1,030,564</u>

Business-type activities:

Water	\$ 444,908
Sewer	159,805
Storm Drain	83,857
Total depreciation expense - business-type activities	<u>\$ 688,570</u>

Total depreciation expense

\$ 1,719,134

Construction Commitments – As of June 30, 2005, the City was completing a new well and related water lines. As of year end, the project is about 84% complete with a projected cost of \$1,600,000. The City also started on an expansion of the secondary water system. This is expected to be completed in 2008 at a cost of \$17,000,000. The project will be financed by a Federal grant of \$5,000,000 and new bonds of \$12,000,000. As of year end, only engineering costs have been incurred.

NOTE 8 - CAPITAL LEASE COMMITMENTS

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business Activities</u>
Asset:		
Machinery and Equipment	\$1,227,512	\$110,927
Less: Accumulated Depreciation	<u>(1,088,679)</u>	<u>(110,927)</u>
Total	<u>\$ 138,833</u>	<u>\$ 0</u>

Amortization of capital assets purchased under capital leases is included in depreciation.

The City has acquired fixed assets financed with capital leases. The related lease agreements contain fiscal funding clauses which allow cancellation of the leases if future funding of the leases are not budgeted by the City Council.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 - CAPITAL LEASE COMMITMENTS (CONTINUED)

The following is a schedule of yearly future lease payments under governmental fund-type capital leases together with the present value of net minimum lease payments as of June 30, 2005:

<u>E-911 Equipment Lease</u>			
Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 41,585	\$ 3,097	\$ 44,682
2007	34,972	1,461	36,433
	<u>\$ 76,557</u>	<u>\$4,558</u>	<u>\$ 81,115</u>

The present value of future minimum capital lease payments under all capital leases as of June 30, 2005 are:

2006	\$41,585	\$3,097	\$44,682
2007	34,972	1,461	36,433
	<u>\$76,557</u>	<u>\$4,558</u>	<u>\$81,115</u>

NOTE 9 - LONG-TERM DEBT

Changes in long-term debt:

The following is a summary of bond, capital lease and other debt transactions for the City for the year ended June 30, 2005.

	Governmental Activities					
	C Road Revenue Bonds	Capital Lease	Lease Revenue Bonds	General Obligation Bonds	Sales Tax Revenues	Total
Payable – begin	\$3,330,000	\$ 174,039	\$ 1,373,000	\$ 908,000	\$ 4,774,000	\$10,559,039
Retired	(420,000)	(97,482)	(249,000)	(294,000)	(175,000)	(1,235,482)
Issued	-	-	-	-	-	-
Payable – end	<u>\$ 2,910,000</u>	<u>\$ 76,557</u>	<u>\$ 1,124,000</u>	<u>\$ 614,000</u>	<u>\$ 4,599,000</u>	<u>\$ 9,323,557</u>
Amount due within one year	<u>\$ 435,000</u>	<u>\$ 41,554</u>	<u>\$ 262,000</u>	<u>\$ 301,000</u>	<u>\$ 178,500</u>	<u>\$ 1,218,054</u>

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 – LONG-TERM DEBT (CONTINUED)

	Business-Type Activities			Total
	Storm Drain Revenue Bonds	Water Revenue Bonds	Sewer Revenue Bonds	
Payable at 7/1/04	\$ 409,200	\$3,391,400	\$ 1,277,400	\$ 5,078,000
Retired	(15,000)	(221,000)	(80,000)	(316,000)
Issued	-	306,000	-	306,000
Payable at 6/30/05	<u>\$ 394,200</u>	<u>\$ 3,476,400</u>	<u>\$ 1,197,400</u>	<u>\$ 5,068,000</u>
Amount due within one year	<u>\$ 15,300</u>	<u>\$ 228,600</u>	<u>\$ 82,600</u>	<u>\$ 326,500</u>

Bonds payable at June 30, 2005, are comprised of the following individual issues:

General Obligation Bonds:

\$1,065,000 2005 Parks and Recreation General Obligation Refunding Bonds due in annual installments of \$19,000 to \$313,000 through March 1, 2007; interest at 1.950% to 3.35% payable semiannually.

\$ 614,000

Lease Revenue Bonds:

\$2,750,000 1999 Lease Revenue Bonds due in annual installments of \$227,000 to \$327,000 through February 28, 2009; interest at 4.80% payable semi-annually

1,124,000

Sewer Revenue Bonds:

\$553,000 Sewer Revenue Bonds Series 2001 due in annual installments of \$46,000 to \$65,000 through February, 2012; Interest is 4% payable annually

409,000

Water Revenue Bonds:

\$1,010,000 Water Revenue Bonds Series 1999 due in annual installments of \$84,000 to \$124,000 through December 1, 2009; interest at 5.00% payable semiannually

428,000

\$150,000 Water Revenue Bond Series 2002A, 0% interest payable in annual installments of \$7,000 to \$18,000 until December 2018

129,000

\$1,700,000 Water Revenue Bond Series 2002B, payable in annual installments of \$63,000 to \$111,000 until December 2022: 3.04% interest payable semiannually

1,572,000

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 – LONG-TERM DEBT (CONTINUED)

\$1,520,000 Water Revenue Bonds Series 2004, 1.700% interest payable in annual installments of \$64,000 to \$75,000 until December 1, 2025. As of year end, only \$306,000 had been issued \$ 306,000

\$449,000 Water Revenue Bond Series 1994 due in annual installments of \$21,000 to \$24,000 through January 1, 2016; interest at .57% payable annually \$ 253,000

C Road Revenue Bonds:

\$4,500,000 2001 "C" Road Bonds due in annual installments of \$557,905 to \$561,505 through January 15, 2011; interest at 4.0% to 4.35% payable semi-annually 2,910,000

Sales Tax Revenue Bonds:

\$7,070,000 Sales Tax Revenue Bonds Series 2002: principal payments in annual installments of \$250,000 to \$525,000 through June, 2023; interest from 3.0% to 5.25% payable semi-annually; this bond is allocated to different funds as follows: Capital Projects 70%, Water 12%, Sewer 12%, and Storm Drain 6% 6,570,000

The annual requirements to amortize bonds outstanding as of June 30, 2005, including interest, are as follows:

Lease Revenue Bonds - MBA

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 262,000	\$ 53,952	\$ 315,952
2007	274,000	41,376	315,376
2008	287,000	28,224	315,224
2009	301,000	14,448	315,448
	<u>\$1,124,000</u>	<u>\$138,000</u>	<u>\$1,262,000</u>

B&C Road Revenue Bonds

2006	\$ 435,000	\$122,905	\$ 557,905
2007	455,000	105,288	560,288
2008	475,000	86,405	561,405
2009	495,000	66,455	561,455
2010	515,000	45,417	560,417
2011	535,000	23,272	558,272
	<u>\$2,910,000</u>	<u>\$449,742</u>	<u>\$3,359,742</u>

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds – 1995

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 22,000	\$ 1,442	\$ 23,442
2007	23,000	1,317	24,317
2008	23,000	1,186	24,186
2009	23,000	1,054	24,054
2010	23,000	923	23,923
2011	23,000	792	23,792
2012	23,000	661	23,661
2013	23,000	530	23,530
2014	23,000	399	23,399
2015	23,000	268	23,268
2016	<u>24,000</u>	<u>137</u>	<u>24,137</u>
	<u>\$253,000</u>	<u>\$ 8,709</u>	<u>\$261,709</u>

Water Revenue Bonds – 2002A

2006	\$ 7,000	\$ 0	\$ 7,000
2007	7,000	0	7,000
2008	7,000	0	7,000
2009	9,000	0	9,000
2010	9,000	0	9,000
2011	9,000	0	9,000
2012	9,000	0	9,000
2013	9,000	0	9,000
2014	9,000	0	9,000
2015	9,000	0	9,000
2016	9,000	0	9,000
2017	9,000	0	9,000
2018	9,000	0	9,000
2019	<u>18,000</u>	<u>0</u>	<u>18,000</u>
	<u>\$129,000</u>	<u>\$ 0</u>	<u>\$ 129,000</u>

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds – 1999

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$102,000	\$ 18,850	\$ 120,850
2007	107,000	13,625	120,625
2008	113,000	8,125	121,125
2009	106,000	2,650	108,650
	<u>\$428,000</u>	<u>\$ 43,250</u>	<u>\$471,250</u>

Water Revenue Bonds – 2002B

2006	\$ 67,000	\$ 47,789	\$114,789
2007	69,000	45,752	114,752
2008	71,000	43,654	114,654
2009	73,000	41,496	114,496
2010	75,000	39,277	114,277
2011	78,000	36,997	114,997
2012	80,000	34,626	114,626
2013	83,000	32,194	115,194
2014	85,000	29,670	114,670
2015	88,000	27,086	115,086
2016	90,000	24,411	114,411
2017	93,000	21,675	114,675
2018	96,000	18,848	114,848
2019	99,000	15,930	114,930
2020	102,000	12,920	114,920
2021	104,000	9,819	113,819
2022	108,000	6,658	114,658
2023	111,000	3,374	114,374
	<u>\$1,572,000</u>	<u>\$492,176</u>	<u>\$2,064,176</u>

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds – 2004

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 0	\$ 5,202	\$ 5,202
2007	12,975	5,202	18,177
2008	13,195	4,981	18,176
2009	13,419	4,757	18,176
2010	13,648	4,529	18,177
2011	13,880	4,297	18,177
2012	14,116	4,061	18,177
2013	14,355	3,821	18,176
2014	14,599	3,577	18,176
2015	14,848	3,329	18,177
2016	15,100	3,076	18,176
2017	15,357	2,820	18,177
2018	15,618	2,559	18,177
2019	15,883	2,293	18,176
2020	16,153	2,023	18,176
2021	16,428	1,749	18,177
2022	16,707	1,469	18,176
2023	16,991	1,185	18,176
2024	17,281	896	18,177
2025	17,574	603	18,177
2026	17,873	304	18,177
	<u>\$306,000</u>	<u>\$62,733</u>	<u>\$368,733</u>

Sewer Revenue Bonds – 2001

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 52,000	\$ 16,360	\$ 68,360
2007	54,000	14,280	68,280
2008	56,000	12,120	68,120
2009	58,000	9,880	67,880
2010	61,000	7,560	68,560
2011	63,000	5,120	68,120
2012	65,000	2,600	67,600
	<u>\$409,000</u>	<u>\$ 67,920</u>	<u>\$ 476,920</u>

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

General Obligation Parks and Recreation Refunding Bonds Series 2003

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 301,000	\$19,967	\$ 320,967
2007	313,000	10,486	323,486
	<u>\$ 614,000</u>	<u>\$30,453</u>	<u>\$ 644,453</u>

Sales Tax Revenue Bonds Series 2002

2006	\$ 255,000	\$280,745	\$ 535,745
2007	265,000	272,945	537,945
2008	275,000	264,501	539,501
2009	280,000	255,483	535,483
2010	290,000	245,422	535,422
2011	305,000	234,194	539,194
2012	315,000	222,175	537,175
2013	330,000	209,275	539,275
2014	340,000	195,662	535,662
2015	355,000	181,106	536,106
2016	375,000	165,406	540,406
2017	390,000	148,573	538,573
2018	410,000	129,133	539,133
2019	430,000	107,082	537,082
2020	455,000	84,648	539,648
2021	475,000	61,862	536,862
2022	500,000	37,975	537,975
2023	525,000	12,863	537,863
	<u>\$6,570,000</u>	<u>\$3,109,050</u>	<u>\$ 9,679,050</u>

Subsequent 5-Year Debt Disclosure

The combined principal amounts of general Long-term Bonds and Enterprise Fund Bonds payable for the next 5 years and to maturity are as follows:

2006	\$ 1,503,000	\$ 567,212	\$ 2,070,212
2007	1,579,975	510,271	2,090,246
2008	1,320,195	449,196	1,769,391
2009	1,358,419	396,223	1,754,642
2010	986,648	343,128	1,329,776

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Subsequent 5-Year Debt Disclosure (Continued)

2011	\$ 1,026,880	\$ 304,672	\$ 1,331,552
2012	506,116	264,123	770,239
2013	459,355	245,820	705,175
2014	471,599	229,308	700,907
2015	489,848	211,789	701,637
2016	513,100	193,030	706,130
2017	507,357	173,068	680,425
2018	530,618	150,540	681,158
2019	562,883	125,305	688,188
2020	573,153	99,591	672,744
2021	595,428	73,430	668,858
2022	624,707	46,102	670,809
2023	652,991	17,422	670,413
2024	17,281	896	18,177
2025	17,574	603	18,177
2026	17,873	304	18,177
	<u>\$14,315,000</u>	<u>\$4,402,033</u>	<u>\$18,717,033</u>

NOTE 10 - RETIREMENT PLAN

Local Governmental - Cost Sharing

Plan Description. Pleasant Grove City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and Public Safety Retirement System (Public Safety System) and Firefighters System for employers with Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 10 - RETIREMENT PLAN (CONTINUED)

Funding Policy. Pleasant Grove City is required to contribute a percent of covered salary to the respective systems, 9.62% to the Noncontributory, and 16.24% to the Public Safety Noncontributory and 8.21% to the Firefighters System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Pleasant Grove City contributions to the Noncontributory Retirement System for June 30, 2005, 2004 and 2003 were \$222,530, \$174,551 and \$145,261 respectively; for the Public Safety Retirement System the contributions for June 30, 2005, 2004 and 2003 were \$217,060, \$188,033 and \$152,847 respectively; and for the Firefighters System the contributions for June 30, 2005, 2004 and 2003 were \$13,293, \$10,594 and \$11,041 respectively. The contributions were equal to the required contributions for each year.

401-K Plan

Central Bank administers a 401-K plan invested with John Hancock Life Insurance Co. The City has elected to contribute a total of 18% for each employee's retirement. Most of this is contributed to the Utah State Retirement System. The rest is put into the 401-K Plan. The contribution for the year was \$275,086 to the 401-K Plan.

NOTE 11 - CONTINGENCIES AND SUBSEQUENT EVENTS

Litigation - The City is a defendant in certain legal actions and pending actions, or in process for miscellaneous claims. The ultimate liability that might result from the final resolution of the above matters is not presently determinable. City management is of the opinion that the final outcome of the cases will not have an adverse material affect on the City's financial statements.

NOTE 12 - RESTRICTED AND RESERVED FUND BALANCES

Restricted

Capital Projects Fund

An amount is set aside for Impact Fees not yet expended	\$1,542,944
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General Fund

Unspent Portion of "C" Road Funds	63,342
Total Restricted	<u>\$1,606,286</u>

Reserved

General Fund

Funds Reserved for Scholarship	6,520
Funds reserved for Emergency 911 operations	289,355
Funds reserved for Library Fund	42,936
Total Reserved	<u>\$ 338,883</u>

PLEASANT GROVE CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for some of these risks. Various policies are purchased through insurance agencies to cover life, health, workers compensation, and other employee related policies. The City also participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The plan covers liability, theft, damages and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. Settled claims resulting from these risks have not exceeded its coverage in any of the past three fiscal years.

NOTE 14 - REDEVELOPMENT AGENCY

The Pleasant Grove City Redevelopment Agency was established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2005, the following activity occurred in the City's Redevelopment Agency:

Tax increment collection from other taxing agencies for various project areas	\$ 178,417
Tax increment paid to other taxing agencies	0
Outstanding loans to finance RDA projects	1,676,475
Amounts expended for site improvements and preparation costs	0
Amounts expended for installation of public utilities and other public improvements	0
Amounts expended for administrative costs and interest paid	54,006

NOTE 15 – OTHER DISCLOSURES

Generally accepted accounting principles require disclosure, as part of the general purpose financial statements, of certain information concerning individual funds, including:

The Redevelopment Agency Fund had a deficit fund balance of	\$1,571,442
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NOTE 16 – RESTRICTED CASH

Restricted Cash represents bond proceeds and bond escrow funds which have been segregated for payment of outstanding bonds.

REQUIRED SUPPLEMENTAL SCHEDULES

PLEASANT GROVE CITY

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual Amounts	Variances with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 5,245,000	\$ 5,862,500	\$ 5,758,567	\$ (103,933)
Licenses and permits	561,500	694,100	683,425	(10,675)
Intergovernmental	973,625	1,159,391	1,037,507	(121,884)
Charges for services	3,195,408	4,364,206	4,301,809	(62,397)
Fines and forfeitures	399,500	557,100	545,470	(11,630)
Miscellaneous revenue	244,550	562,500	562,331	(169)
Total revenue	<u>10,619,583</u>	<u>13,199,797</u>	<u>12,889,109</u>	<u>(310,688)</u>
EXPENDITURES				
Current:				
General government	3,345,022	3,193,047	2,928,839	264,208
Public safety	3,618,539	3,974,728	3,843,065	131,663
Highways and public works	1,796,600	1,908,498	1,633,516	274,982
Parks and recreation	2,109,000	2,417,667	2,208,672	208,995
Debt service:				
Principal retirement	419,900	486,631	486,631	-
Interest and fiscal charges	141,605	141,605	141,605	-
Total expenditures	<u>11,430,666</u>	<u>12,122,176</u>	<u>11,242,328</u>	<u>879,848</u>
Excess revenues over (under) expenditures	<u>(811,083)</u>	<u>1,077,621</u>	<u>1,646,781</u>	<u>569,160</u>
Other financing sources (uses)				
Transfers in	1,495,110	100,000	100,000	-
Transfers out	(641,096)	(1,400,000)	(1,400,000)	-
Total Other Financing Sources (Uses)	<u>854,014</u>	<u>(1,300,000)</u>	<u>(1,300,000)</u>	
Net change in fund balance	42,931	(222,379)	346,781	569,160
Fund balances - beginning of year	<u>3,476,064</u>	<u>3,476,064</u>	<u>3,476,064</u>	<u>-</u>
Fund balances - end of year	<u>\$ 3,518,995</u>	<u>\$ 3,253,685</u>	<u>\$ 3,822,845</u>	<u>\$ 569,160</u>

See accompanying notes.

PLEASANT GROVE CITY
Redevelopment Agency Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual Amounts	Variances with Final Budget - Positive (Negative)
REVENUES				
Taxes	\$245,000	\$245,000	\$178,417	\$ (66,583)
Total Revenue	<u>245,000</u>	<u>245,000</u>	<u>178,417</u>	<u>(66,583)</u>
EXPENDITURES				
Interest	44,710	44,710	44,710	-
Total Expenditures	<u>44,710</u>	<u>44,710</u>	<u>44,710</u>	<u>-</u>
 Excess (Deficiency) of Revenues Over Expenditures	 200,290	 200,290	 133,707	 (66,583)
 OTHER FINANCING SOURCES (USES)				
Transfers Out	(217,040)	(217,040)	(9,296)	207,744
 Net Change in Fund Balance	 (16,750)	 (16,750)	 124,411	 141,161
 Fund Balance - July 1	 <u>(1,695,853)</u>	 <u>(1,695,853)</u>	 <u>(1,695,853)</u>	 <u>-</u>
Fund Balance - June 30	<u>\$ (1,712,603)</u>	<u>\$ (1,712,603)</u>	<u>\$ (1,571,442)</u>	<u>\$ 141,161</u>

See accompanying notes.

SUPPLEMENTAL SCHEDULES

PLEASANT GROVE CITY
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2005

	Special Revenue Fund		Total Non-Major Governmental Fund
	Municipal Building Authority	Debt Service	
ASSETS			
Cash and cash equivalents	\$ 272,074	\$ 366,679	\$ 638,753
Interfund loans	346,652	-	346,652
Property tax receivable	-	123,177	123,177
Total assets	<u>618,726</u>	<u>489,856</u>	<u>1,108,582</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue	\$ -	123,177	\$ 123,177
Total liabilities	<u>-</u>	<u>123,177</u>	<u>123,177</u>
Fund balances:			
Unreserved fund balance	618,726	366,679	985,405
Total fund balances	<u>618,726</u>	<u>366,679</u>	<u>985,405</u>
Total liabilities and fund balances	<u>\$ 618,726</u>	<u>\$ 489,856</u>	<u>\$ 1,108,582</u>

See accompanying notes.

PLEASANT GROVE CITY
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue Municipal Building Authority	Debt Service	Total Non-major Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ 261,980	\$ 261,980
Miscellaneous	103,459	9,773	113,232
Total	<u>103,459</u>	<u>271,753</u>	<u>375,212</u>
EXPENDITURES:			
Debt Service:			
Principal retirement	249,000	294,000	543,000
Interest and fiscal charges	67,304	28,548	95,852
Total	<u>316,304</u>	<u>322,548</u>	<u>638,852</u>
Excess of revenues over (under) expenditures	<u>(212,845)</u>	<u>(50,795)</u>	<u>(263,640)</u>
Other financing sources (uses):			
Transfers in	9,296		9,296
Total other financing sources (uses)	<u>9,296</u>	<u>-</u>	<u>9,296</u>
Net change in fund balance	(203,549)	(50,795)	(254,344)
Fund balances - begin	822,275	417,474	1,239,749
Fund balances - end	<u>\$ 618,726</u>	<u>\$ 366,679</u>	<u>\$ 985,405</u>

See accompanying notes.

SINGLE AUDIT AND OTHER REPORTS

PLEASANT GROVE CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grant I.D. Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Passed Through Utah Division of Drinking Water Capitalization Grant for Drinking Water State Revolving Funds	66.468	N/A	\$ 944,183
<u>Office of Library Services</u>			
<u>National Foundation on the Arts and the Humanities</u>			
Passed Through Utah Department of Community & Economic Development - State Library Division State Library Program	45.310	041865	6,440
<u>U.S. Department of Health & Human Services</u>			
Passed Through Mountainland Association of Governments Low-Income Home Energy Assistance Special Programs for the Aging Title III Part C	93.044		488
Low-Income Home Energy Assistance Special Programs for the Aging Title III Part B	93.045		2,345
Total U.S. Department of Health & Human Services			2,833
<u>U.S. Department of Agriculture</u>			
Passed Through Mountainland Association of Governments School Lunch Program	10.550		6,733
<u>U.S. Department of Justice</u>			
Direct Public Safety Partnership	16.710		74,982
Passed Through Utah Office of Crime Victim Reparations Crime Victim Assistance	16.575		5,330
Violence Against Women	16.588		35,144
Total U.S. Department of Justice			115,456
<u>U.S. Department of Homeland Security</u>			
Passed Through Utah Department of Homeland Security State Domestic Preparedness Equipment Program	97.004		161,005
<u>U.S. Department of Interior</u>			
Passed Through Central Utah Water Conservancy District Water Project	15.xxx		132,890
<u>U.S. Department of Housing and Urban Development</u>			
Passed Through Department of Community and Economic Development Community Development Block Grant	14.228		51,000
<u>U.S. Department of Transportation</u>			
Passed Through State of Utah State and Community Highway Safety	20.600		2,049
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,422,589

See accompanying notes to Schedule of Expenditures of Federal Awards.

PLEASANT GROVE CITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of activities related to the Pleasant Grove City's expenditure of Federal Awards. The schedule has been prepared on the same basis of accounting as the general purpose financial statements. Most of the awards are reimbursement based. Therefore, as expenditures of Federal funds are made, revenue is recognized.

NOTE B – ACCOUNTS RECEIVABLE

The general purpose financial statements include accounts receivable from grant programs. The receivables reflect Federal awards that have been expended by year-end not yet reimbursed.

NOTE C – FEDERAL LOANS

In June 2005, Pleasant Grove issued Water Revenue Bonds for \$1,520,000 which were bought by the Utah Division of Drinking Water. The State's share of the funds was \$306,204, the Environmental Protection Agency's share was \$1,213,796. The proceeds are used for a city water project. At June 30, 2005, \$944,183 has been spent on the project using City and State matching funds. No Federal loan funds have yet been drawn from this bond issue.

PLEASANT GROVE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Pleasant Grove City.
2. No reportable conditions were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Pleasant Grove City were disclosed during the audit.
4. No reportable conditions were identified during the audit of internal control over major Federal award programs.
5. The auditor's report on compliance for the major Federal award programs for Pleasant Grove City expresses an unqualified opinion.
6. No findings were identified relative to major federal award programs.
7. The programs tested as major programs included:
 - CFDA #66.468 Capitalization Grant for Drinking Water
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pleasant Grove City was determined to be not a low-risk auditee because no single audit was performed in the previous two years.

B. CURRENT YEAR AUDIT FINDINGS

None

C. PRIOR YEAR AUDIT FINDINGS

None

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Pleasant Grove City Corporation
Pleasant Grove, UT

December 5, 2005

We have audited the financial statements of the business-type activities of Pleasant Grove City, as of and for the year ended June 30, 2005, which collectively comprise the Pleasant Grove City's basic financial statements and have issued our report thereon dated December 5, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

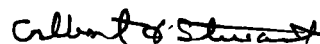
In planning and performing our audit, we considered Pleasant Grove City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pleasant Grove City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Pleasant Grove City, in a separate letter dated December 5, 2005.

This report is intended solely for the information and use of management, State Auditor, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Pleasant Grove City Corporation
Pleasant Grove, UT

December 5, 2005

Compliance

We have audited the compliance of Pleasant Grove City with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. Pleasant Grove City's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Pleasant Grove City's management. Our responsibility is to express an opinion on Pleasant Grove City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Pleasant Grove City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pleasant Grove City's compliance with those requirements.

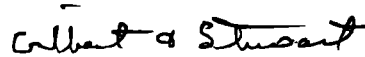
In our opinion, Pleasant Grove City complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Pleasant Grove City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Pleasant Grove City's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Utah State Auditor, State and Federal agencies and other pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Pleasant Grove City Corporation
Pleasant Grove, UT

December 5, 2005

We have audited the general purpose financial statements of Pleasant Grove City Corporation for the year ended June 30, 2005, and have issued our report thereon dated December 5, 2005. As part of our audit, we have audited Pleasant Grove City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)
Liquor Funds (Utah State Tax Commission)

The City also received the following non-major grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of Pleasant Grove City Corporation's financial statements.)

Arts (Utah Arts Council)
Library Service Development (State Library)
Emergency 911 Training Grant
Police-Redman Suit Grant

Our audit also included test work on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt	Justice Courts
Cash Management	B & C Road Funds
Purchasing Requirements	Special Districts
Budgetary Compliance	Other Compliance Requirements
Property Tax	Department of Commerce - Building Permits
Liquor Law Enforcement	Impact Fees
	Asset Forfeitures

The management of Pleasant Grove City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Pleasant Grove City Corporation complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

This report is intended solely for the information of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

PLEASANT GROVE CITY CORPORATION
MANAGEMENT LETTER

GILBERT & STEWART
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December 5, 2005

Honorable Mayor and City Council
Pleasant Grove City Corporation
Pleasant Grove, UT

We have completed our audit of the general purpose financial statements of Pleasant Grove City Corporation for the year ended June 30, 2005 and have issued our report thereon dated December 5, 2005. Professional Standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 16, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Pleasant Grove City Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provision.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pleasant Grove City Corporation are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by

the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process. We did propose and make certain reclassifying, and closing entries to properly reflect required recognition of revenues, expenses, and financial position in accordance with U.S. generally accepted accounting principles.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Utah State Compliance Findings - Current Year

05-1. Other General Compliance Issues

Finding: The Redevelopment Agency has a deficit fund balance.

Recommendation: The City should make the proper adjustments to correct this deficiency.

City's Response: We concur and will make the adjustment as future revenues become available.

05-2. Other General Compliance

Finding: The fund balance of the General Fund exceeds the amount allowed by law.

Recommendation: The fund balances should be decreased to be within the amounts allowed by the Utah Code.

City's Response: We will make the proper adjustments to the General Fund balance.

Utah State Compliance Findings - Prior Year

04-1 Other General Compliance Issues

Finding: The Redevelopment Agency has a deficit fund balance.

Recommendation: The City should make the proper adjustments to correct this deficiency.

City's Response: We concur and will make the adjustment as future revenues become available.

Auditor's Response: See current year finding 05-1.

04-2 Budgetary Compliance

Finding: The Class C Road Fund and Debt Service Fund had expenditures that exceeded the adopted budget.

Recommendation: The City should make proper budget adjustments so budgeted expenditures are not exceeded.

City's Response: We concur and will monitor the budget and make amendments as needed.

Auditor's Response: The City is in compliance in the current year.

04-3 **Other General Compliance Issues**

Finding: The fund balance of the General Fund exceeds the amount allowed by law.

Recommendation: The fund balance should be decreased to be within the amounts allowed by the Utah Code.

City's Response: We will make the proper adjustments to the general fund balance.

Auditor's Response: See current year finding 05-2.

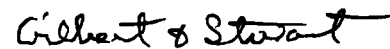
Other Matters for Consideration:

1. Wells Fargo has a bank account in the name of Pleasant Grove City Fire Department. This account has \$687.77 in it at June 30, 2005 and is not recorded on the records of the City. We recommend recording this account on the City's books if it is not owned by another legal entity.
2. We noticed several old outstanding checks. We recommend reviewing these to see if new checks should be written or if they are duplicates needing to be voided.

We wish to express our appreciation to the City personnel for the friendly and enthusiastic help extended to us during the course of examination.

This information is intended solely for the use of the management of Pleasant Grove City and should not be used for any other purpose.

Sincerely,



GILBERT & STEWART
Certified Public Accountants



70 South 100 East
Pleasant Grove, Utah 84062
Phone (801) 785-5045
Fax# (801) 785-8925

March 3, 2006

MacRay A. Curtis, CPA
Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
Salt Lake City, Utah 84114-2310

I.e.: Pleasant Grove City audit

Dear Mr. Curtis:

The Redevelopment Agency deficit fund balance will continue to exist until fund revenues pay off existing debt. This will take several more years.

Also the General Fund excess balance was transferred to an appropriate account but was done after the Financial Statements had been prepared. This will take place prior to the end of the fiscal year in the future, thus keeping the city within the amount allowed by State Law.

Please let me know if you have other questions.

Sincerely,

Michael W. Daniels, Mayor
Pleasant Grove City